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NEWS RELEASE

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UM ECONOMIST PREDICTS GROWTH FOR MONTANA ECONOMY IN 2005

MISSOULA —

The planets remain in a favorable alignment for the Montana economy, according to Paul Polzin, director of The University of Montana's Bureau of Business and Economic Research.

"Montana's strong economic performance in 2004 is likely to be followed by another year of robust growth in 2005," Polzin said. Preliminary data show 3.8 percent growth in 2004, and the forecast for 2005 – which Polzin calls conservative – is 2.6 percent.

Polzin said the 2004 growth was spurred by construction and strong commodity prices – especially for farm and petroleum products.

"National and international conditions suggest that the strong commodity markets will continue in 2005," he said. "The major downside risk is that higher interest rates will slow construction activity."

Higher oil prices have brought prosperity to parts of Montana that haven't had favorable economic trends for decades, Polzin said. Preliminary data show nearly 700 new oil and gas jobs between the first half of 2004 as compared to the corresponding period in 2003. Most of these new jobs were in **Richland County** and neighboring areas.

"This oil price spike is different," Polzin said. "Unlike previous increases in oil prices, this one is caused more by demand factors rather than supply restrictions," he said.

Rapid economic growth in China and other developing nations has swelled the demand

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for oil and strained worldwide refining capacity, he said. In contrast, previous oil price spikes were associated with OPEC shutting off the supply of oil.

"It's likely that high oil prices may stay around for a while rather than plummeting downward when OPEC turns on the spigot again," Polzin said. "Therefore, the implication for Montana is the oil boom in the far eastern part of the state may exceed that of the early 1980s."

Aside from the usual concerns about drought and insects, the major risk to the Montana economy is that interest rates will skyrocket perhaps because of a terrorist attack, or that some event elsewhere in the world will cause the dollar to plummet or otherwise impact commodity prices, Polzin said.

Montana is unlikely to experience a bursting of the house price bubble, he said. Accelerating home prices have led to stories in the media suggesting that the increases have outpaced the improved fundamentals based on borrowing costs and income growth.

"Statewide, our house price increases have been less than the national average, but **Missoula County** house prices have outpaced the U.S. average, and there is anecdotal evidence that this is also true near **Bozeman** and **Kalispell**," Polzin said. "Therefore, some parts of Montana may be at risk to experience bubble burst effects, if they occur."

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